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SCHIFF'S

INSURANCE OBSERVER

February 16, 2007
Volume 19 • Number 1

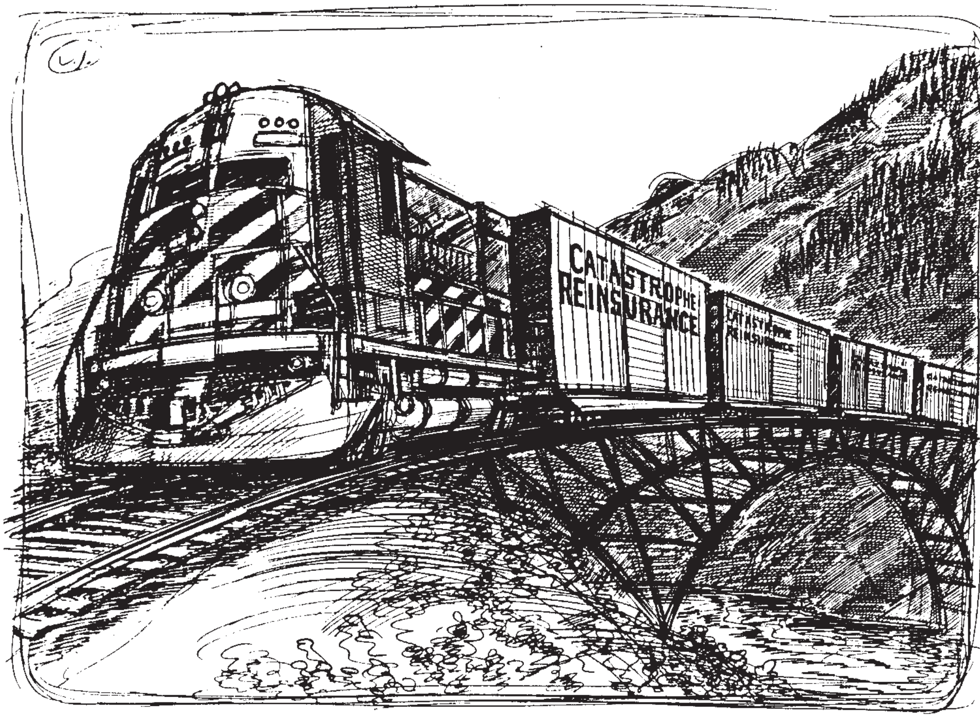
"This is the Big Money"

Hank Greenberg in the Sixties

IF THERE'S ONE INSURANCE man whose career is worth studying, surely it is that of Hank Greenberg, who built AIG into one of the world's greatest insurance and financial companies. Numbers don't always tell the whole story, but in AIG's case they tell a lot. On September 30, 1968—about the time Greenberg became firmly in charge of the organization—AIG's balance sheet listed four significant assets: investments in American Home, New Hampshire, ALICO, and National Union insurance companies, which were valued at $24.2 million, $6.1 million, $5.4 million, and $12.2 million, respectively. AIG's debt totaled $12 million, leaving the company with shareholders' equity of $35.5 million. In 1969, AIG's first year as a public company, it reported revenues of $232 million and earnings of $13 million. By the time Greenberg left AIG in 2005, shareholders' equity had grown to $80 billion and the company's annual earnings were about $9.5 billion.

Although AIG is one of the most remarkable business stories of modern times and Greenberg is one of the greatest executives, there is surprisingly little to read about the company or the man. While Amazon.com lists thirty-eight books about Warren Buffett, it has but one about Greenberg—"Fallen Giant: The Amazing Story of Hank Greenberg and the History of AIG," by Ron Shelp, which has little about AIG during the 1960 to 2004 period—the years in which Greenberg transformed an amalgam of international underwriting agencies and small domestic insurers into modern-day AIG.

The sad state of literature about Greenberg is likely to be improved next year with Random House's publication of a new biography by Noam Scheiber. Noam, who's a senior editor at The New Republic, *has written the following article about Greenberg's early days at AIG.*



A train loaded with catastrophe reinsurance leaves Florida.

IN DECEMBER OF 1960, C.V. Starr & Company circulated an unremarkable 100-word press-release announcing the hiring of a young executive named M.R. Greenberg. "Widely known among accident and health underwriters and to state insurance officials," the release noted, "Mr. Greenberg has been prominently identified with development of the senior citizens health insurance and other programs of the Continental Casualty Company of Chicago." The statement was signed by the Starr's president, William S. Youngman.

There was nothing in the release to suggest that Greenberg would soon become one of the company's leading executives, or that he would be running the entire Starr operation within several years. Within the Starr organization, however, Greenberg's hiring was greeted with the kind of optimism reserved for a franchise player in professional sports—a feeling that he could alter the company's trajectory for years to come.

A subsequent press release from Continental Casualty provides a better glimpse into Greenberg's allure. "Maurice R. Greenberg has resigned as vice president of the Continental Casualty companies of Chicago to accept an appointment as vice

THE ANNUAL

SCHIFF'S

INSURANCE CONFERENCE

Thursday, April 12, 2007
in New York City

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president of C.V. Starr & Company," it announced, before continuing:

> Mr. Greenberg, at the age of 33, was the youngest man ever to hold the position of vice president in the 62-year history of the Continental Casualty Company. He joined Continental in 1952, and was a supervisor of the special risk division of the company's New York branch office. He rapidly rose to assistant counsel and in 1956 became counsel for the company…in the eastern part of the United States. In 1957, because of his wide range of experience in legal, sales, and underwriting, Mr. Greenberg was named assistant vice president and counsel. In 1959, he was elected vice president of the entire insurance firm and was in charge of the general group department, the credit, accident, and health department, and the independent plants divisions of the advertising and marketing department. He was also a principal legal advisor for accident and health insurance and served on key committees of several trade organizations in the insurance industry. In addition to serving 3.5 years overseas in the army during World War II, Mr. Greenberg served two years in the Army as counsel with the U.N. war crimes commission in Korea, where he attained the rank of captain and was awarded a bronze star. A native New Yorker, Mr. Greenberg received his LLB degree from New York law school and was admitted to the New York bar in 1950. He and his wife, the former Corinne A. Zuckerman of New York City, are the parents of three boys.

"This is what the PR department came up with. I thought I would send it along," Greenberg wrote Youngman, enclosing the document. "Even though there has already been a release, your PR man might want it for his file."

Greenberg had made his name at Continental by, among other things, developing a program to sell health insurance via the New York Retired Teachers Association, a predecessor to today's AARP. He was riding high on this success when Milburn Smith, a mentor who had recently left Continental, ran into C.V. Starr in Tokyo. Starr mentioned that he wanted to build a global A&H business of his own, and Smith immediately thought of his younger colleague. Starr was intrigued, and spent the better part of a year persuading Greenberg to work for him.

Greenberg didn't even realize he was being courted at first. Starr had asked Greenberg to take on his young protégé, Olympic skier Chiharu "Chick" Igaya, as an understudy at Continental. Later, he dropped in on Greenberg and Igaya in Chicago and invited Greenberg to visit him in New York. Once Greenberg discerned the older man's intentions, he was

Hank Greenberg in the 1960s

reluctant to go along, having set his sights on becoming Continental's president. That Smith had warned him it would be unlikely for a Jew to ascend to such heights only made him more determined. It took some eight or nine months of persistent wooing before Greenberg finally accepted the offer. "I was excited about the international field," Greenberg says of his change of heart. "I had been to Asia during the war. I was kind of fascinated by it."

Surely another consideration was Greenberg's belief that he could produce big gains for what was then a sleepy organization. Not long after accepting the job, Greenberg petitioned C.V Starr & Company to lend him $100,000 for the purchase of stock in American Home, an insurance company Starr controlled. It was a large amount of money at the time—by comparison, Greenberg's starting salary at C.V. Starr & Company was only $30,000—but, in Greenberg's mind, it was a great investment. With his arrival at the organization, he says, he was confident American Home could become "something other than a disaster."

Following Starr's lead, people at the upper levels of C.V. Starr displayed a high regard for Greenberg's talents. Youngman, for one, didn't flinch at Greenberg's request. In December of 1960, he asked a colleague named Dick Rhodebeck to make it happen:

> As you know, we have had the good fortune to persuade Maurice "Hank" Greenberg to transfer from the Continental Casualty to our organization, where he will be responsible for stimulating and coordinating the efforts of our companies to break into the fields of individual accident and group A&H worldwide. We believe this is the big money, especially for insurance companies in the near future…
>
> As regards our domestic operations, Greenberg is convinced that individual accident and group A&H can give American Home a shot in arm it so badly needs. He is so convinced of what can be done to stimulate the business of American Home that he is prepared to back his confidence, and wants to buy 2,500 shares at the current market price, which, in terms of the latest bid, is $40 per share. I think you will agree that it is important to our entire organization, and not the least of all to the AIRCO Group, that Greenberg should have a chance to acquire a personal stake in this venture, on which we are all counting so greatly for success.…I am sure it is to our advantage to make these shares available to him.

AIRCO lent Greenberg $100,000 at a four percent interest rate. (AIRCO—the American International Reinsurance Company—was the C.V. Starr concern that controlled various U.S. operating companies. In 1967, AIRCO created AIG as a holding company for these entities, and was AIG's largest shareholder when that company went public in 1969.)

Whether Youngman realized how valuable Greenberg could be to the company, or whether he was simply channeling Starr, the "big money" prediction soon came to pass. According to John Cox, later a top aide to Greenberg, company scuttlebutt held that Greenberg would be successful if he attracted $1 million in A&H business during his first year. As it happened, Greenberg managed to produce more than $5 million. Some of the success is surely attributable to the team of insurance men he'd poached from Continental on his way out the door. ("Continental wasn't happy about it," says Greenberg. "But you had to do what you had to do.") But it was a remarkable achievement nonetheless, and it left his new colleagues slack-jawed.

Such were Greenberg's early years with Starr—full of abiding respect from above, rapidly increasing responsibilities, a steady stream of promotions, raises, and benefits. Not long after joining the company, AIRCO lent Greenberg the money to buy an apartment at 1001 Park Avenue.

By May of 1962, after less than a year-and-a-half at C.V. Starr, Greenberg was made president of American Home and his salary was raised to $40,000. By 1967, Greenberg had become one of a handful of C.V. Starr's executive vice presidents. Between this job and his position at American Home, his annual salary came to $75,000.

HOWEVER HIGHLY Youngman may have come to regard Greenberg professionally, there remains some question as to whether the two men gelled personally. Certainly they came from vastly different backgrounds. Greenberg grew up in the working class climes of Swan Lake, New York. His mother worked as a hairdresser and his step-father was a dairy farmer. ("I milked a lot of cows," he reflects.) Greenberg returned from World War II to attend the University of Miami in Florida—a popular destination for young veterans of high intellect but limited means—then took his law degree from the decidedly blue-collar New York Law School. Upon accepting the job with Starr, the Greenberg brood relocated to New York from the Chicago suburb of Wilmette.

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INSURANCE OBSERVER

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Youngman, by contrast, descended from a long line of Massachusetts Brahmins. His father had served as the state's lieutenant governor. His mother hailed from a prominent Boston family. Bill himself had graduated from Harvard and then Harvard Law School, where he finished third in his class and edited the law review. It was the 1930s by the time Youngman completed a clerkship with Judge Learned Hand, and the New Deal beckoned to ambitious young Harvard men. Youngman took a job in Washington and served alongside such prominent New Dealers (and fellow Harvard law grads) as Thomas Corcoran and Benjamin Cohen, who wrote the decade's landmark securities laws. He remained in the Roosevelt administration through World War II, serving as an envoy to Chiang Kai-shek and as one of the brains behind the "Flying Tigers," the air unit that secretly battled the Japanese prior to America's official entry.

Corcoran and Youngman became law partners not long after the war. The two families were so close that the Youngman children referred to Corcoran as "Uncle Tom;" they'd gather at his home for lunch on Sunday afternoons, when a who's who of New Dealers would drop by to (literally) trade war stories. Legend has it that Corcoran provided the critical link between Youngman and C.V. "Neil" Starr. At some point during the late 1940s, the British government had seized a number of Starr assets abroad. Corcoran, whom Starr had first approached about the problem, considered the situation hopeless. But he referred Starr to Youngman, who handled the assignment with his typical aplomb. Starr was so impressed he offered him a job.

From Greenberg's perspective, Youngman's pedigree was a mixed bag. On the one hand, it was partly the "mystique" that Youngman and his chief lieutenant, Gordon Tweedy, lent C.V. Starr that had attracted him to the company in the first place. "They were a different kind of breed than the insurance industry" was used to, he says. On the other hand, Youngman and Tweedy had an exceedingly limited knowledge of the business—their value to the company came primarily on the financial side, and from their vast political connections. At times, this made them painfully oblivious to the operational issues Greenberg was so attuned to. This was particularly true of the most vexing problem facing C.V. Starr in those days: the fate of American Home.

According to Cox, who spent several years as American Home's de facto CFO, the company had three sources of business: its domestic agency system; large brokerage business from the likes of Marsh & McLennan and Johnson & Higgins; and international property/casualty business that came via the Starr company's AIU network. (AIU acted as an agent for U.S. underwriters abroad.) Unfortunately, the company was in terrible shape. "American Home was a dying entity," says Cox, adding that the domestic agency operation was especially woeful. Worse, had American Home gone under, it would have dealt C.V. Starr & Company a serious blow—not just financially, but also in credibility terms. American Home was the only company in the AIU network that C.V. Starr actually owned, and it held property-casualty licenses in several foreign countries. Allowing it to fail would have effectively frozen Starr out of the underwriting business in many parts of the world.

Greenberg had taken a seat on the board of American Home only a few months into his tenure with C.V. Starr. He could see that the subsidiary needed massive surgery, and that Youngman *et al.* were at a loss as to how to perform it. But he was reluctant to claim the assignment himself. He only agreed after Starr implored him, and even then only after securing a free hand to run the company. As a practical matter, that meant jettisoning the American Home agency force and rebuilding around a talented team of underwriters. Greenberg would focus on insuring large risks, relying on brokers to arrange the business. Lacking capital, he would then cede much of the risk to reinsurers (mostly Reliance in those days), a strategy that, years later, became his hallmark at AIG.

As the reforms began to pay off, Greenberg would joke to Cox about how Starr had "tried respectability, and it didn't work."

"That was his way of putting a zinger into the Yale and Harvard education," says Cox. Greenberg has no memory of homing in on "respectability" per se. But he admits remarking on how clueless

Youngman and Tweedy were when it came to saving American Home. “If they could have done it, they would have. It’s as simple as that,” he says. “They didn’t have the answers.”

Youngman, for his part, felt a certain ambivalence toward Greenberg. The C.V. Starr president was a consummate gentleman, however, and his behavior with Greenberg was no exception. He took care to accommodate his new colleague even on personal matters. When, for example, the Greenbergs relocated to New York from Illinois, Youngman penned a gracious letter of recommendation to the board of a Manhattan co-op. “Mr. Greenberg is the most distinguished young insurance man in the country,” he wrote before enumerating Greenberg’s manifold talents. He then concluded: “In addition to outstanding ability, Mr. Greenberg is a man of great tact and an agreeable personality. …I should be very glad to have him in my cooperative building and I feel sure he will be a great asset to your building.” Other warm gestures followed. A few years later, Youngman wrote another letter of recommendation, this time on behalf of Jeff, the Greenbergs’ teenage son, who was in the process of applying to prep schools such as Groton and Exeter. In December of 1965, Youngman arranged it so that the Greenbergs’ Park Avenue apartment would pass to Mrs. Greenberg if her husband died before repaying AIRCO, which carried the apartment on its books.

By this point, of course, Youngman had good reason to hold Greenberg in high regard. Youngman had been chairman of American Home when Greenberg took over as president. Greenberg’s turnaround had saved Youngman from failure, and the older man was grateful. Greenberg recalls that “Youngman jumped on the idea” of giving him the American Home assignment when Starr suggested it. Youngman’s son Bob, who worked for C.V. Starr & Company for thirteen years beginning in the early 1960s, agrees that his father would have been relieved to see Greenberg take the assignment.

It was only in later years that the two men’s visions for the company increasingly clashed. Youngman was modest and circumspect; Greenberg ambitious and impatient. The split became evident in 1967. Roughly once a week for several months that year, Greenberg would attend meetings with senior members of the Starr organization—AIRCO president Ernest Stempel, AIU chairman Edwin E. A. Manton, and AIU president John Roberts, in addition to Youngman, Tweedy, and Starr himself—most of whom were a decade or two older than Greenberg himself. The topic of discussion varied from week to week, but the subtext was invariably the company’s future, over which there were strong disagreements. "I was more in a hurry with some of the things I thought could be done," Greenberg says, referring to the strategy of growth via acquisition, "and some of them wanted to go somewhat more slowly." When, for example, large blocks of National Union stock came up for sale in 1968, Youngman preferred to make a small initial investment while Greenberg favored buying the company outright. Cox, in whom Greenberg regularly confided, recalls the discussions as wrenching, up-and-down affairs. Some days Greenberg would return from the meeting and "be elated, some days down in the dumps."

The tension erupted from time to time, most memorably at an AIRCO annual meeting in Bermuda in late 1967. Several weeks earlier Starr had sounded Youngman out about making Greenberg a vice chairman of the reinsurance concern. Youngman was opposed. He worried it would come off as a slap to Tweedy, who had more seniority and to whom he remained loyal. Youngman thought he'd put the matter to rest when senior AIRCO executives gathered for drinks in the garden of Stempel's Hamilton villa. He was stunned when Starr abruptly announced he was nominating Greenberg to the position. Before long, Youngman and Starr were exchanging invective. Tempers flared to the point that Starr offered to buy out Youngman's AIRCO holdings, since he so obviously disagreed with the organization's direction. Greenberg says it felt like an eternity before the executives sat down to eat, and when they finally did, it was a joyless occasion. "It was a very quiet dinner," he remembers.

Greenberg would replace Youngman as president of C.V. Starr & Company less than a year later (Greenberg became the *de facto* CEO of the entire Starr organization), leaving Youngman a somewhat bitter man. The source of Youngman's bitterness wasn't so much Greenberg, but Youngman's perceived betrayal by other Starr executives—Manton, Roberts, Stempel. "He kind of felt like people he thought were friends, it turned out they weren't friends," says another son, Bill Youngman III. "I think there were a lot of other people father felt stabbed him in the back." Youngman, according to this son, had expected to run the entity soon-to-be reorganized as AIG, at least from some intermediate period, but realized he lacked the support of these colleagues.

Youngman also felt that Starr had reneged on a deal to acquire his large block of AIRCO shares. Having been so scorned, Youngman turned to Victor Herd, chairman of the Continental Corporation of New York, to sell his stock. Though Youngman's motives may have been benign, the Starr organization took a sinister view of the sale. Top Starr executives believed Herd wanted control of AIRCO—"He did, absolutely," Greenberg says—and spent the next few years steeling themselves for a takeover bid. It was hardly a paranoid anxiety. Tiny Leasco had mounted a successful hostile takeover of Reliance that same year, and Herd was known to have acquisitive ambitions.

But the anticipated raid never happened. In 1969, AIG went public via an exchange offer in which it issued its common stock, convertible debentures, and convertible preferred shares to acquire the outstanding shares of American Home (of which it then owned 51.4%), National Union (57.8%), and The New Hampshire (12.4%), laying the foundation for the company we know today. ■

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